

## COMMENT

### The Decade of the Big Zeroes

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The end of the year – and of the first decade of the second millennium – is almost upon us. And when calendar milestones pass, they induce reflection. We look back with a sense of incredulity at all that occurred in search of lessons to be drawn and peek into the onrushing future; this time, however, with more trepidation than is the norm. Understandably so! The last decade – most notably the last two years – has brought its shares of surprises, fateful events and zeroes.

Starting with some recent developments, unimaginable and unfathomable a few years ago, this comment reflects upon some defining moments, which the decade past has staged and which are likely to shape the Asia-Pacific region's socio-economic political landscape.

Indeed, who in their right mind would have predicted that some iconic U.S. giants, household names the world over, would be brought to their knees? Too big to fail; had the likes of General Motors and AIG, also become too big to succeed?

And, who in their right mind would have predicted that, after two decades of knee-jerk denunciations of government, the United States, of all nations, would be spearheading governments' efforts to save some of the pillars of modern capitalism with taxpayers' money; in essence, turning to public coffers to socialize their risks? Too big to let them fail, it was argued.

Not too long ago, the idea that the government would be bailing out private companies or have a say in some aspects of their operations would have sounded radical, even among the left-centre. These government-orchestrated rescues in the U.S. and elsewhere mark a departure from the pre-crisis era of unbridled deregulations and signal a move toward a bigger state role in promoting economic growth and more public scrutiny. Will this trend endure?

The overwhelming sense of economic triumphalism that prevailed in America's business and political establishments in the early 2000s has given way to more sobering economic analyses. What we are witnessing in the aftermath of the crisis is a breakdown in *"the key assumptions that formed the basis of the thinking about the efficiency and self-correcting nature of markets, which for a long time underpinned the rationale for globalization, liberalization, and deregulation"* (Giriharadas, 2009). As Nobel laureate Joseph Stiglitz pointed out, *"self-regulation [...] was an oxymoron [...] the market failed to allocate capital and manage risk properly"* (The Nations, 2009).

Still the lessons learned if any, from the near-collapse of the financial world could turn out to be short-lived. Witness Washington's avowed aim to ensure that the banking giants do not keep expanding. Yet, the whole system has now grown more concentrated as some too-big-to-be-allowed-to-fail banks have since then gobbled up some ailing titans, once their domestic competitors.<sup>2</sup>

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And, adding insult to injury, this is all unfolding amidst a growing chorus of criticisms from economists warning that the mammoth size of some of these Wall Street institutions is a threat to the financial system at large. But with economists being attacked for failing to foresee or avert the financial crisis and caricatured as “*a lost generation educated in the use of valueless, even harmful, mathematical models,*” they may have few ears in Washington (Lucas, 2009).

Although it is best to ignore such nonsense caricature of no value in thinking about the larger questions, it would be nonetheless wrong to class all recent attacks of economists – and MBAs – as falling into the absurdist camp. There have been thoughtful criticisms (Pant, 2009).<sup>3</sup> Among all the issues raised, two in particular should be mentioned here for future debates: What can the public reasonably expect of economists? How well have the public been served by them in the current crisis?

There are also troubling signs that some of Wall Street’s excesses, which precipitated the economic turmoil, may be returning. Old habits die hard as the much-decried oversized bonuses are reminding us. The plan that seems to be shaping up is a classic exercise in ‘lemon socialism’: privatization of gains and socialization of losses. Taxpayers bear the cost if things go wrong, but stockholders and executives reap the benefits if things go right.<sup>4</sup>

In the parlance of the industry, investment bankers expect to eat what they kill. However, at a time when the world is still reeling from the worst economic crisis since the Great Depression, anything that smacks of plutocracy is going to arouse justifiable populist anger. The Wall Street argument that bonuses are really a part of the overall compensation is not going to fly too well in this environment.

Of concerns too are the legislative efforts to curb the excesses of the financial system and rein in Wall Street’s over-estimated IT-based capacity in repackaging risks associated with financial products. The expected lack of teeth of the emerging financial regulatory landscape, a stark reminder of the pressure exercised by interest groups, is a far cry from the earlier Fed-bashing rhetoric. Band Aids for gaping wounds? It also underscores a growing tendency for governments to err too much on the side of caution; both domestically and internationally. Could all this portend of things to come?

To quote Nobel laureate Paul Krugman, “*what was truly impressive about the decade past [...] was [the U.S.] unwillingness, as a nation, to learn from [its] mistakes.*” This unwillingness to learn, however, is not just the hallmark of one country. No one in the West really learned from the 1997 Asian economic crisis, because it did not spread to the developed countries (Stiglitz, 2009). And, of course, as Einstein once said: “*the kind of thinking that created a problem is not the kind of thinking that will successfully resolve the problem*” (Jones, 2009). In short, it could soon be business as usual again with its attendant lack of self-discipline, wild risk-taking, and the blind pursuit of profit.

Yet, the typical American family has little to show for the last ten years. To paraphrase Krugman again, the decade past should be called “the Big Zero” as it was a decade “*with basically zero job creation*<sup>5</sup> [...] *zero economic gains [...] zero gain for US home owners [...] and a decade of zero gains for stocks even without taking inflation into account.*” Obviously, something went awry.

It was not, however, a *Big Zero* decade across the board. In fact, for some – including some in the U.S. – the first decade of the 21<sup>st</sup> century turned out to be a bonanza; a decade of *Big Zeroes* popping up on the balance sheets and turning companies’ earnings into eight-digit numbers at a

neck-breaking pace. Take, for example, China and India: the two emerging economic powerhouses. Their GDP growth forecast for 2010 is an astounding eight to nine per cent which, save for last year, follows a streak of even more staggering figures unheard of elsewhere.<sup>6</sup>

There is a *de facto* new world order with Asia-Pacific as the economic epicenter. China and India's seemingly boundless economic growth is turning the zone into the economic hub of the world; all the more as the region is actively pursuing greater economic integration; starting with the Asean-China Free Trade Agreement (Asean+1)<sup>7</sup> and Asean Free Trade Area (Afta)<sup>8</sup> due to take effect on January 1, 2010.

More schemes are in the making as China, Japan and South Korea (the so-called 'plus-three'), have recently reaffirmed their resolve to pursue closer ties with the Association of South-East Asian Nations (Asean+3). Plans have also been embraced to expand the 10-member grouping with the 'plus-six partners': China, South Korea, Japan, Australia, New Zealand and India, the latter, as part its 'Look East' policy,<sup>9</sup> (Asean+6).<sup>10</sup> Clearly, Asean centrality has received a crucial boost<sup>11</sup> and the 10-nation grouping established itself as the cornerstone of the region's architecture.<sup>12</sup>

All of this is coming in addition to Asean's commitment to establishing a single market; the Asean Economic Community (AEC), by 2015. The AEC, however, seems to suffer from a 'democratic deficit' as the much-hyped EU-style integration is perceived as being market-driven and imposed top down (Camroux, 2009). A sense of regional community will thus require efforts from the bottom up; all the more given the obsession with the prerogatives of national sovereignty that exist in the region, not to mention symbolically-charged territorial disputes.

Asean and China will mutually benefit from these new developments. Asean+1 will create the world's largest free trade zone in terms of population (1.9 billion).<sup>13</sup> Increasing Asean access to the 1.3 billion people of China could produce significant benefits. And trade between China and Asean, which soared to US\$192.5 billion in 2008 from US\$59.6 in 2003, is expected to get another big lift with Asean+1, particularly in those nations with commodities that resource-hungry China desperately needs.<sup>14</sup> It is also estimated that Thailand will gain a surplus of Bt333 billion (US\$10 billion) per year from intra-Asean trade (The Nation, 2009).

Yet, not everyone considers Afta and Asean+1 be advantageous. While it is too early to see whether Afta and Asean+1 will mean boom or bust for Thai businesses, it is safe to say that opportunities and threats abound. If nothing else, the very fact that Thailand is taking adaptive measures is a clear indication of the challenges ahead.<sup>15</sup>

Local companies focusing on the production of cheap consumer goods are especially concerned that cheap mass-produced Chinese goods may flood their markets once import taxes are removed, making it difficult for them to increase their market shares. Afta will also make it easier for non-Asean firms to operate in Thailand, for instance, without investing in the country itself. By the same token, however, companies already operating in Thailand will be able to use Thailand as a supply center to other branches within Asean for greater economies of scale.

The negative and positive impacts will not occur in one day, though, which will give producers time to adjust. As recognized by Thai officials, the country must adapt to the new economic landscape. The private sector has to further develop its competitiveness and identify new niches. According to Surin Pitsuwan, Asean Secretary-General, foreign direct investment (FDI) in Asean in 2008 was US\$60 billion, of which only \$11 billion was from Asean investors, mostly

Singaporean and Malaysean, which suggests that a number of Thai corporations have yet to reach out internationally.<sup>16</sup>

What is clear is that Afta and Asean+1 are setting off a dramatic surge in commerce at the most propitious moment. With Asia's exports to the US, European and Japanese markets well below pre-financial meltdown levels, the region needs to reduce its dependence on exports to Western economies and increase domestic consumption to sustain growth rates. Decoupling Asian economies from the West, however, is no easy task. The shift in focus away from export dependence will require "*developing education and closing the knowledge and IT gaps*" (Stiglitz, 2009).

Whereas not so long ago, stabilizing the world's economy and providing the impetus to recovery would mainly befall the United States, that role is now falling upon China's shoulders. And Thailand, like much of the world, is turning to China with the hope it will be able to lead economic growth in the next decade.

China has begun the transition process and is trying to reduce its previous level of reliance on exports, focusing on its domestic market. Presently, it is the younger generation that holds the greatest promise for its emerging consumer economy. Coming of age during the three-decade-long boom, they boast an unflinching confidence in the future. Young urban consumers have no plan to change their spending habits and live by the penurious ways of their parents and grandparents. They want the best of everything and they want it now (Dautrey, 2009).

The crisis has lifted China's international status. Its pursuing an "*oblique strategy of expanding its web of bilateral and international lifelines to nations in trouble*" helps trade and can be converted into political influence (Buckley and Rabinovitch, 2009). However, much stronger and bigger than 10 years ago, China is also confronting a new international reality: as it is extending its global reach and advancing its broader goals, it is increasingly unable to cast itself as a friendly alternative to an imperious American superpower. For many in Asia, and potentially in other regions, it is the new colossus that could soon throw its weight around to get things its own way; yet, another indication of the profound geo-political-economic changes taking place.

The Sino-American relationship will undoubtedly shape the 21<sup>st</sup> century. China's growing prominence, though, does not mean it is about to don the cape of a full superpower and is ready to jostle with the U.S. for superpower status. This would rub against "*its [present] ingrained preference for a muted international role*" (Ibid). But China may soon have the role of junior associates in running the world. Besides, although American economic dominance has been injured, China has a long way to go before it surpasses the U.S. in GDP and an even longer one before it matches its income per capita (Stiglitz, 2009).

We are entering the post-American world, that is a world beyond America's brief moment of global domination and a world in which the U.S., though no longer dominant, remains the indispensable nation among partners. In short, China will not end the U.S. global role or dislodge the dollar any time soon.

The economic realities of the 21<sup>st</sup> century, however, have yet to be reflected in the structures of international organizations. The world glaringly needs international institutions that are representative of the world of today, not yesterday, and ensure developing nations greater influence on the world stage. European countries are simply over represented in the decision-making executive boards.

The recently-approved change in the organic structure of the International Monetary Fund (IMF),<sup>17</sup> though a step in the right direction, remains wide of the mark as it leaves too many countries with too little voice and too few opportunities for participation. And even though the G20 has agreed to make itself the principle forum for global economic issues, eclipsing the former West-dominated G8, emerging countries still fail to have a fair level of representation at existing global-level institutions.

In essence, we have been building a global economy without constructing an appropriate global regulatory framework. To paraphrase Thailand's PM, Abhisit Vejjajiva, "*if financial instruments and investment can freely flow across borders and no institution can truly provide global regulations and implement those measures, there is no way we can correct the fundamental problems.*"<sup>18</sup> There are no EU-only or America-only solutions to today's problems. Global institutions and mindsets are needed to address global problems. And real cooperation, not a mere show of unity, is needed.

Leaders who gather for international meetings will go to great lengths to demonstrate unity, for instance, donning outlandish costumes as a show of unity.<sup>19</sup> Still, the convergence on the surface often belies much divergence deep down.

Last year, however, they did not need cow boy hats or batik shirts to show the world they were acting in unison - or more to the point, speaking in unison. The global financial crisis had done the bonding for them. And speaking in unison, they did. They were quick to call for more regulated markets and pepper their rhetoric with many good intentions, vowing more transparency, integrity, and global governance.

Still, this flurry of good intentions has yet to translate into action. For all the talks of a latter-day Breton Woods Conference,<sup>20</sup> gone are the thoughts of a new international financial market regulator with cross-border authorities. The EU push for closer international coordination of regulatory agencies garnered little support from the rest of the world, wary of supra national authorities. So did the EU push for tighter control of hedge funds and unregulated securities.

As the failure of the latest round of World Trade Organization (WTO) trade talks (the so-called Doha Round) in early December 2009 attests, polarizing dichotomies, especially the industrialized versus industrializing nations demarcation, remains the biggest obstacles in addressing globalization imbalances.

The December failure was the latest in a long series of failed attempts year after year to broker a final agreement. A central obstacle has been a disagreement on agricultural policies and some industrial products. Developed countries have yet to reduce farm subsidies and a few remaining high industrial tariffs and emerging countries are still reluctant to open trade. Launched in 2001 and initially scheduled to be concluded in 2004, the Doha Round has witnessed a decade of almost 'Zero' progress. And though G20 leaders have pledged it would be completed in 2010, the world should not hold its breath!

Further underscoring the industrialized/industrializing divide are trade disputes.<sup>21</sup> Not surprisingly, given the perceived increasing threat posed to U.S. manufacturing by newly-industrialized countries,<sup>22</sup> China and the U.S. have been heavily trading accusations of international trade rules violation. The latest irritants: a 35% tariff on Chinese tires, in the wake of domestic campaigns to "buy local".<sup>23</sup> The WTO estimated that "anti-dumping" disputes will reach 437 in 2010, double

that in 2008. Though it is time to open doors not to erect walls, international trade cooperation is fading and non-tariff protectionism rising.

A gulf of opinion between major industrialized and developing nations is also at the core of the failure to reach an agreement and turn rhetoric into action at the Copenhagen 15th Conference of the Parties to the UN Climate Change Convention (COP15)<sup>24</sup> in mid-December, ending up a decade of almost 'Zero' progress.

Albeit for different reasons, the United States and China, the world's two largest emitters of greenhouse gases are still reluctant to commit to emission reductions commensurate with their emission levels. Congress, concerned that countries that do not follow suit will outcompete the U.S. in the global market-place, is skittish about passing a new mandate for heat-trapping gases, denounced by the Republicans as a "jobs killer." And China has balked at international verification and monitoring, calling such steps a threat to its sovereignty and preferring to act as its own watchdog on compliance.

The consequences of the COP15 failure are quite apparent. In the future, firms will have less incentive to reduce emissions and invest in innovations that will reduce emissions. And those which spent money to reduce their emission worry that doing so would put them at a competitive disadvantage as others continue to emit without restraint (Stiglitz, 2009). Many European firms, for example, will continue to be at a competitive disadvantage relative to those which bear no cost for their emissions.

The environmental discourse, however, is here to stay. With all the media hype surrounding COP15, environmental concerns are taking hold of the collective mind and shaping the way we do business, use transportation, and perceive MNCs. They are also likely to drive consumer preferences in the future, offering opportunities for environmentally correct companies, i.e., companies using green technology and churning out eco-products (e.g. eco-cars) to reach these consumers.

Eco-concerns have also entered the corporate boardroom as MNCs recognize that by being environmentally responsible, they can build trust and improve their image - therefore becoming more competitive. Here is a figure worth considering: the first annual corporate environmental report was published early in the 1990s; in 2007 over 2,000 companies publish such reports every year (Hill, 2008). Clearly, MNCs are wary of their constituents' expectations and the repercussions of not meeting them.

It is also likely that at some point in the future MNCs will be expected to take responsibility for their products from cradle to grave, i.e., plan for a final stage in the product life cycle, (the "post-mortem" stage), all of which requiring corporate investment even after the product has ceased to create revenue (Czinkota, 2008).

As suggested by the Map Ta Phut impasse, the tension between economic interests and environmental concerns requires a tricky balancing act. The Thai Supreme Administrative Court decision to uphold a lower court's injunction against 65 industrial projects, while good news for the environment climate, may be bad news for the investment climate.<sup>25</sup>

A brief aside: consider another milestone. The human population became majority-urban for the first time; an amusing anecdote yet one symbolically charged as the cities' anonymity exemplifies the growing anonymity elsewhere in our lives (Giriharadas, 2009). As outsourcing and off-shoring

are growing, so is anonymity in the workplace. Virtual connectedness has become ordinary: virtual business meetings, virtual banking, virtual credit-default swaps, etc. In short, anonymity became human: a gain? 'Zero' gain? As with most issues, there is no straight forward or ready answer.

In conclusion, let's dispense with the fiction that trade frictions will suddenly end and big global pacts, long non-starters, suddenly be inked. Whatever will unfold in the years to come hinges largely on our willingness – or unwillingness – to learn from past events; that is, not merely diagnose what caused the ills but also apply the proper remedies and adopt preventive measures. It also largely hinges upon Asia, which, with the world's fastest-growing markets, holds to a large extent the key to the future global geo-political economic order (Chellaney, 2009). Never before have China, Japan and India all been strong at the same time. Whether the next decade ends with a multi-polar world and uni-polar Asia, a uni-polar world and multi-polar Asia, or a multi-polar world and multi-polar Asia is still unclear. What the past decade has made clear, though, is that a uni-polar world is the least desirable option. The question that remains, then, is whether lessons have been learned from it.

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## Notes

<sup>2</sup>It all started with the 1999 repeal of the Glass-Steagall, which allowed the walls separating investment banks (that organize the sales of bonds and equities) and commercial banks (that lend money) to be torn. As a result, commercial and investment banks were no longer separated as had been the case in the wake of the Great Depression.

<sup>3</sup> Most notably by Henry Mintzberg (2004).

<sup>4</sup> The capitalist ideologies of the 19<sup>th</sup> century, where an individual owned a company and bore the consequences of his decisions, has changed into the 21<sup>st</sup> century "realities, where executives and shareholders own a company but pass on the consequences and costs of their decisions to other people

<sup>5</sup>The zero net-job creation in the first decade of the new millennium was also pointed out by Philip Martin, an economist at the University of California at Davis, at a recent panel discussion in Bangkok.

<sup>6</sup>In fact, in most cases, the GDP growth is likely to remain in close-to-negative territory, with high unemployment.

<sup>7</sup>In 2004, China entered into an agreement with Asean to create Asean+1 with the target of reducing duties on most goods to zero by 2010. Intra-Asean trade has a 550-combined population.

<sup>8</sup>Afta was signed in 2002. Most of the goods are currently subject to 5%. Some agricultural products will still face tariffs but will be gradually phased out. As provided by Afta, Asean's new members (Burma, Cambodia, Laos, and Vietnam) have until 2015 to gradually reduce their tariffs which must be eliminated by then.

<sup>9</sup>According to Indian Commerce and Industry Minister, "China is a trade rival but also a close trade partner, *The Nation*, "Exclusive Interview," August, 16, 2009.

<sup>10</sup>The IMF estimated that the 16 member countries would account for 28% of the world GDP from 2009-14, compared with 27% for the EU and 24% for the United States. The GDP of Asean+6 economies totaled \$15.8 trillion in 2008 close to that of the EU and NAFTA.

<sup>11</sup>Asean has also inked FTAs with China, Japan, South Korea, and Australia-New Zealand. And individual Asean states are parties to various bilateral FTAs; Thailand, for example, is pursuing a broader bilateral FTA with India covering goods, building on the early-harvest scheme in place since 2004.

<sup>12</sup>Asean and its major trading partners also recently reaffirmed their resolve to create the world's largest economic bloc through the "East Asia Free Trade Agreement" (EAFTA) and "comprehensive Partnership in East Asia" (CEPEA) within 15 years.

<sup>13</sup>And the world's third largest free trade area right behind the EU and NAFTA in terms of volume.

<sup>14</sup>China is Asean's third trading partner after Japan and the EU.

<sup>15</sup>Some officials think a certain amount of protection will be needed as domestic markets will adjust to a possible explosion of consumer imports: an Afta fund has been set; regulations to ensure the quality of farm-good imports and protect Thai consumers will be adopted; and an excise tax hike on alcoholic beverages to prevent cheaper foreign-made beer and spirits from flooding the market is also being considered.

<sup>16</sup>*The Nation*, "Thai firms should look more to Asian consumers," December 2, 2009. "Most of them operate in the local environment and expand their empires through contracts with the government instead of trying to compete in the global market" (Ibid, 12A).

<sup>17</sup>An increase quota of representative shares by 5%.



<sup>18</sup>*The Nation*, “Asia: Road to New Economy,” September 1, 2009 (p. 3A).

<sup>19</sup>This example is in reference to the Asia Pacific Economic Cooperation (APEC).

<sup>20</sup>This is in contrast to the role that it played after the Great Depression when it was instrumental in organizing the Breton Woods Conference in 1944 which resulted in the establishment of the IMF and the International Bank for Reconstruction and Development.

<sup>21</sup>The crisis becomes a general excuse to block imports and favour domestic firms. At least 130 protectionist measures such as state funds, higher tariffs, immigration restrictions and export subsidies, are being planned by world governments.

<sup>22</sup>Yet manufacturing in the U.S. employs fewer workers than in the service sector, which employs 75 per cent of the labor force.

<sup>23</sup>Disputes between Washington and Beijing continue to grow. It started with the U.S. putting a 35% tariff on Tyres from China last Sept. China followed by putting tariffs on chickens, steel, nylon, autos, paper and salt. The US says it is only protecting the country’s rights while China counters that the U.S. started the whole thing by launching an unprovoked attack.

<sup>24</sup>The COP15 took place from December 7-18, 2009.

<sup>25</sup>Investment sentiments have been dampened by the Map Ta Phut impasse. Thailand is losing its attractiveness because of unpredictability and risks. According to the Japanese Chamber of Commerce (JCC), Japanese investors have been affected by nine industrial projects out of 64.